CR: How Fast It's Growing, How Much It's Spending, And How Far It's Going

AN UNPRECEDENTED GAUGE OF THE MARKET, WITH NYSE EURONEXT

BY DIRK OLIN AND JAY WHITEHEAD

The road to the partnership between *CR Magazine* and NYSE Euronext began in the Spring of 2009, just after the magazine's team rang the closing bell at another stock exchange. The Big Board, which listed more than 85 percent of the companies on the magazine's "100 Best Corporate Citizens List," at the time had planted its own CR flag. And NYSE, like many of its listed companies, was pining for the establishment of empirically defensible benchmarks for CR best practices over and above the "100 Best Corporate Citizens List." Sure, NYSE noted, the "100 Best List" provides high-quality and transparent quantitative guidance. But what about the qualitative factors? After all, the practice of corporate responsibility is as much about the soft skills as it is about the numbers.

So as the management teams of both *CR Magazine* and NYSE worked toward their October, 2009 formal partnership, both kept their eyes on the several joint projects that would make a difference. The Corporate Responsibility Best Practices survey, or CRBP 1, that appears on the following pages is the partnership's first tangible product and its first attempt to document best practices. CRBP 1 was designed to result in a practice roadmap for CR practitioners in sustainability, CSR, ESG, GRC and philanthropy in larger-cap multinationals. The survey was written so that it can evolve to include new elements as they arise, yet can also be compared apples-to-apples over time.

Because most multinationals find the bulk of their employees, shareholders, creditors, and regulators in North America and Europe, we solicited responses from both sides of the Atlantic. And because we know that the practice of CR has evolved differently in both markets, the divergent responses were quite enlightening.

CRBP 1 is the largest-ever survey of CR best practices in terms of the number of participants and combined market capitalizations and employee headcounts of the participating organizations. But just because the response was large does not mean that it was easy to get companies to talk about the state of their corporate practices in this new area.

In fact, never before have any of us received more calls from general counsel asking for written assurance that the results would be confidential as to identity of respondents. We're uncertain why lawyers would be concerned about the completion of a simple online survey. After all, we are hardly inquiring about the personal lives of board members. But what that does tell us is that this CR stuff matters to companies—and that it's emergent, uncodifed, and still evolving.

Which proves NYSE Euronext's original point. No road map exists right now. And for those brave and intrepid companies that know that CR is and will be a source of competitive advantage, *CR Magazine* considers it our mission to hunt up standards wherever they live.

Four major revelations can be found in the survey respones that follow. First, some 35 percent of U.S. companies have a formal corporate responsibility officer or its functional equivalent. That lags behind Canada's 47 percent and Western Europe's 65 percent. However, it's a quantum leap from just four years ago, when only 1 percent of U.S. companies had so designated such a function.

Second, 42 percent of corporate responsibility officers (again, or their equivalent) report to the CEO. What does that tell you? That this has fast become an imperative within the c-suite. It's a must-have, not a nice-to-have for many companies.

Third, corporate responsibility budgets are surprisingly large, with nearly a third of companies reporting budgets in excess of one million dollars—and that's exclusive of any philanthropic endeavors that the company might be supporting. What's more, 76 percent of those budgets either stayed the same or increased during the financial crisis of 2008 and 2009. Corporate responsibility is clearly not some bauble or marketing decoration. For many companies, it has seeped into their DNA.

Last, two-thirds of companies report that at least one of their product or service offerings rely on a marketing message wherein corporate responsibility is the key value-driver for the brand. That shouldn't surprise anybody who has paid any attention to the green marketing trend. So the biggest takeaway is that this train is leaving the station, and if your company is not already on board, it's time to buy a ticket.

The Survey Revealed

BY RICHARD J. CRESPIN & ELIZABETH BOUDRIE

For most companies, corporate responsibility programs are thinly veiled marketing ploys that lack substance and distract from their basic profit-making purpose. Right?

Not true—at least not true for the more than 650 companies across dozens of industries and from all the habitable continents that responded to the Corporate Responsibility Best Practices Survey. We set out to uncover the real state of corporate responsibility (CR) and establish a baseline for future measurement, so we teamed up with NYSE Euronext to send surveys to every one of their publicly traded companies and all of the companies in the Corporate Responsibility Officers Association (CROA) database. (We are, respectively, the CROA executive director and research director.) The study turned out to be the largest-ever sampling of corporate responsibility.

In the Great Recession, did companies continue to invest? Does corporate responsibility help or hurt profits? Do CEOs and boards really care about it? Are corporate responsibility programs set up to succeed? More than anything, this year's results set a baseline from which we can delve deeper and track progress year-over-year. We also found some surprising developments and a few disconnects. Soon, CROA members will get the composite survey results, and companies can also subscribe to get detailed analysis and benchmarking comparing their company to their selected peers. For now, let's take a tour of the results.

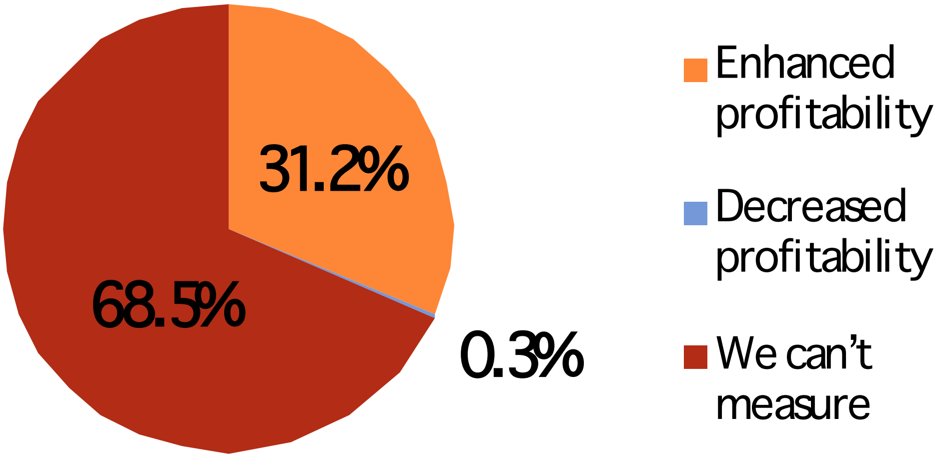
YOU CAN DO WELL BY DOING GOOD

Corporate responsibility is nothing but a cost center, right? Apparently not.

Over 30 percent of firms report they can demonstrate that corporate responsibility has enhanced their profitability. Right now we don't have hard data on how they're measuring that impact, but knowing that a significant number of executives view CR as directly contributing to their bottom line should encourage more investment in linking doing well as a company with doing good for society.

While this is good news, it also means that nearly 70 percent of firms could not measure the impact of CR on profits and 0.3 percent reported it actually decreased profits. Additional research is needed to

Figure 1: My company can demonstrate that CR has



GOAL AREA	% reporting
Environment, Health & Safety (EHS)	60%
Human Resources (HR), Employee Relations & Diversity	56%
Energy Use, Environmental Impact & Climate Change	54%
Corporate Social Responsibility (CSR) & Citizenship	48%
Governance, Risk & Compliance (GRC)	46%
Philanthropy & Corporate Foundation	45%
Supply Chain Management	34%
Human Rights	28%

understand how companies measure these impacts, but this data provides us with a starting point from which we can measure progress.

TO IMPROVE CORPORATE RESPONSIBILITY, IMPROVE ITS MEASUREMENT

To make the tough calls in sports, we go to the videotape. In CR we need to go to the data. Experience tells us that without clearly articulated goals with measurable targets assigned to them, progress just doesn't happen. You can't manage what you can't measure. What these companies measure indicates their ability to improve. The chart below shows the areas in which companies have publicly declared goals.

67 percent say at least one product or service relies on a CR-related message

Perhaps not unsurprisingly, the longer something has been regulated, the more likely companies are to publicly report data. Environment, Health, & Safety (EHS), Human Resources (HR), and Energy Use, Environmental Impact, & Climate Change all come in with more than 50 percent of firms publicly reporting goals. Supply chain management, which undoubtedly touches on some of these same issues, comes in at 34 percent, which may be a commentary on companies' ongoing struggle to better manage their supply chains. Human rights, alas, comes in dead last with less than a third of companies reporting.

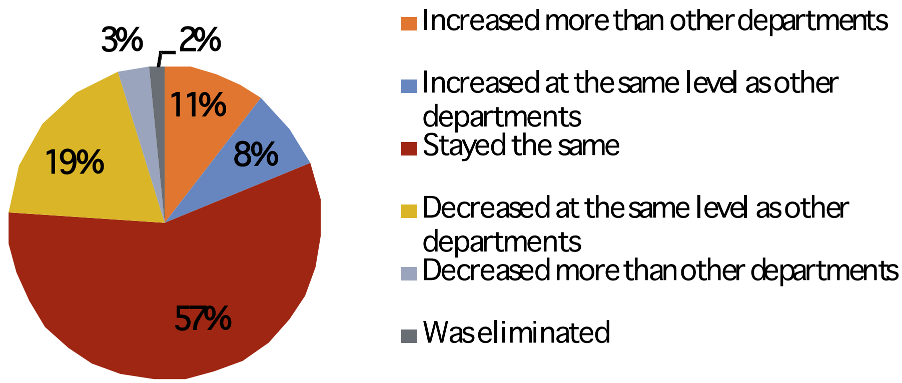
Encouraging a culture of measurement is vital to proving the case for CR and demonstrated actual benefits to the company and to society. These companies have taken an important first step in making public declarations. Setting goals and tying measurable targets to them is a precondition for the professional management of CR. With this baseline, we can now track how well companies measure CR's impact to see how companies improve their ability to measure and therefore manage their impact on society.

CUSTOMERS CARE ABOUT CORPORATE RESPONSIBILITY

Cynics complain that CR is just a public relations ploy to cover up corporate misdeeds. Perhaps. In a more realistic and less cynical view, companies invest in things that they think will help them sell more stuff. And it appears from our survey results that a majority of firms believe their customers value corporate responsibility in making purchasing decisions. In fact, 67 percent of respondents said at least one of their products or services relies on a CR-related message in its marketing.

Though the survey results themselves don't demonstrate a causality between CR-messages

Figure 2:



and increased sales, our interviews and other anecdotal reports increasingly point to a more informed purchasing public—not just a more informed consumer, but also a more informed business-to-business buyer—looking at corporate responsibility when making purchasing decisions.

Interestingly, last year perhaps the biggest buyer of them all, the US federal government, ordered federal agencies to include sustainability in their purchasing requirements (Executive Order 15314: http://tinyurl.com/yfx7d6t). It seems all sides —buyers and sellers alike—believe in the importance of CR. Can CR drive sales? It appears it just might.

Bottom line: If you want to change company behaviors, change what their customers demand from them. So far, that's working.

WITH PROFITS ON THE LINE, COMPANIES CONTINUED TO INVEST IN CORPORATE RESPONSIBILITY

Matching the cynicism of those who think CR is just a marketing ploy are those who think that when push comes to shove companies abandon CR to safeguard profits. Well, push did come to shove in 2009, and when it did only a tiny minority of companies actually slashed their dedication to corporate responsibility. According to our respondents, spending on CR held steady throughout the "Great Recession": only 5 percent of survey respondents indicate that CR spending decreased more than other departments or was eliminated altogether. Despite intense pressure, the vast majority of the time, the amount of spending on corporate responsibility increased, held steady, or decreased only in proportion with the rest of corporate spending throughout 2009.

We all know what a tough year 2009 was for most companies. It speaks volumes to the true dedication companies have for their CR programs that so many of them not only held their spending steady (57 percent) but actually doubled down: 19 percent of respondents say they increased spending at the same level or higher than other departments. While another 19 percent report decreases, they were proportional to cuts in other departments.

CEO AND BOARD CR ENGAGEMENT IS UNEVEN

Do CEOs and boards care enough to lead, and if so, does it actually matter? Well, as is often said, change comes from the top, and CR is no different. Some 43 percent of CR functions report directly to the CEO or board of directors, and a majority of CEOs have led at least one CR-related initiative in the last 12 months. Moreover, 41 percent of boards have one or more members designated to lead CR-related topics, and 23 percent of boards have led a CR-related initiative in the last 12 months. Those results exceeded our expectations, but clearly we have some distance to travel.

Beyond the numbers our interviews reveal that when CEOs take a direct interest in CR,

The TOP areas in terms of their CR importance to my CEO are	
3	Corporate Governance
4	Risk Management
5	Employee Relations

43percent of CROs report to the CEO

51 percent of CEOs have recently driven a CR initiative

41 percent of boards have members dedicated to CR efforts

As CEO, the TOP areas in terms of their CR importance to me are	
3	Risk Management
4	Employee Relations
5	Brand Management

it makes a big difference in the likelihood and quality of positive outcomes. When CEOs meet frequently with their CR teams and speak clearly (more on that proviso below) an almost direct correlation emerges with the ability of these teams to achieve their stated goals.

COMPANIES LACK INTERNAL CONSENSUS ON WHAT THEY VALUE FROM CORPORATE RESPONSIBILITY

There's a difference between what the staff think CEOs value and what CEOs say they actually value from CR programs. CEOs rank corporate governance and sustainability strategy as their top two priorities for their CR programs. Other (non-CEO) respondents, however, believe CEOs rank sustainability strategy and brand management as the number one and number two priorities, respectively. While it's not surprising that CEOs place a higher degree of importance on corporate governance than other respondents, the fact that non-CEOs believe CEOs value

Figure 3: My company has a Corporate Responsibility Officer (CRO) or similar role that is responsible for CR processes

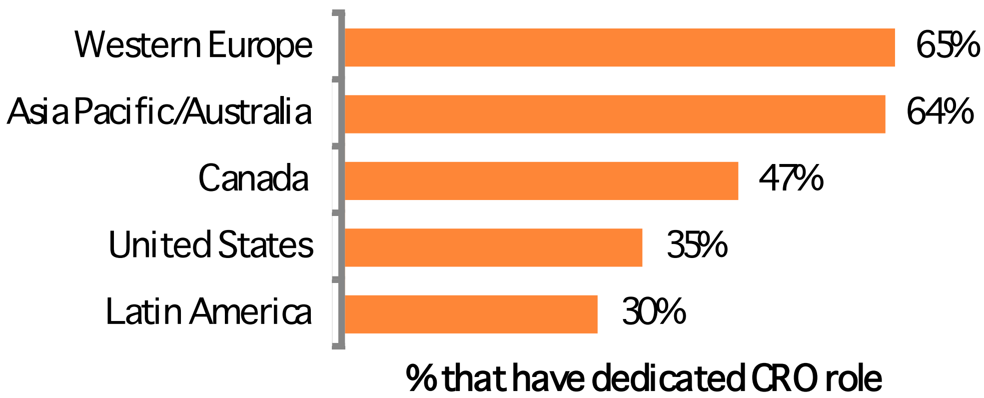
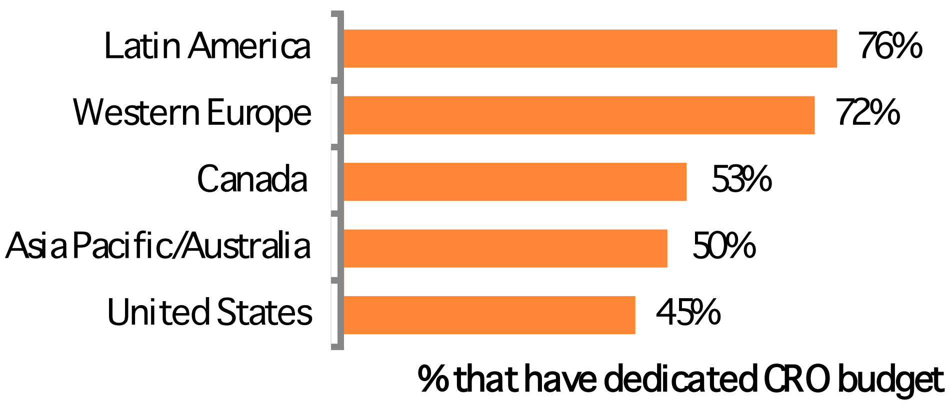


Figure 4: The CR function has a dedicated department budget handled by a single budget owner



brand management highly (second versus the CEOs' actual ranking of fifth) is interesting, and raises the question of how well CEOs communicate their CR values.

One cause for this disconnect could be a lack of clarity on the CEO's part about his/her actual priorities. As reported earlier, 43 percent of CROs report directly to the CEO, but that also means that 57 percent don't. Nearly half of CEOs report never meeting with their CR staffs. While this number probably includes a disproportionate number of the companies that do not have any CR program, it still indicates that CEOs aren't always directly communicating their objectives to the CR staffs. Couple that with the fact that 26 percent say they can't measure anything related to the CR program, and you begin to see that there are some who are really struggling with setting and measuring priorities for their programs.

DIFFERENT COUNTRIES, DIFFERENT CR CULTURES

There are substantial differences among different regions in their CR emphasis. Some 35 percent of U.S.-based corporations report having a dedicated CRO, compared with 65 percent for Europe, 64 percent in Asia Pacific/Australia, and 47 percent in Canada. While CR has grabbed headlines in the U.S. of late, this data reveal that the rest of the world has quietly assembled more formal programs in greater numbers than their American counterparts.

Latin American (76 percent), Western European (72 percent), Canadian (53 percent), and Asia Pacific/Australian (50 percent) companies are more likely to have a dedicated CR budget than their US counterparts (45 percent). They're all also more likely to have specific communications dedicated to socially responsible or environmental investors than US companies.

CR WILL STRUGGLE TO DELIVER ON HIGH EXPECTATIONS

Rising expectations are almost synonymous with CR. Society expects more from companies. Companies expect more from their CR programs. Fully 57 percent of respondents indicate that in the next three years they will expand the responsibilities of their CR programs. Only 19 percent, though, expect to add more staff and 21 percent will increase their CR budget. When considered alongside the fact that 48 percent of CR programs do not have a dedicated budget, and 20 percent of firms overall and 26 percent of the largest firms have CR programs but no CR Officer, one wonders if these programs have too many burdens with too few shoulders to carry them.

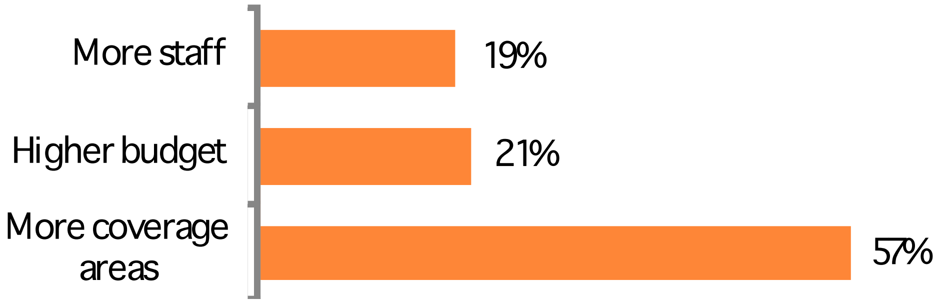
CONCLUSION

When we step back from the data, several key questions jump out at us as worthy of additional study:

- Are companies measuring the right things and putting in place the professional management armed with the right tools to get the job done?
- Are companies raising expectations without providing resources?
- Have they structured these programs for real success?
- If expectations rise faster than these programs can deliver, will it give ammunition to critics who claim CR is merely a tool for marketing shills?

Perhaps the most precious asset any company has is ROMT: Return on Management Time. You can make more money, but you can't make more time, and the precious time executives devote to these programs has to measurably payoff. Not necessarily in hard cash, but for sure in hard data. We hope these data encourage company executives to continue devoting their ROMT to ensuring CR's success. CR

Figure 5: I expect my company's CR program to expand through



What Makes a "Real" Corporate Responsibility Program?

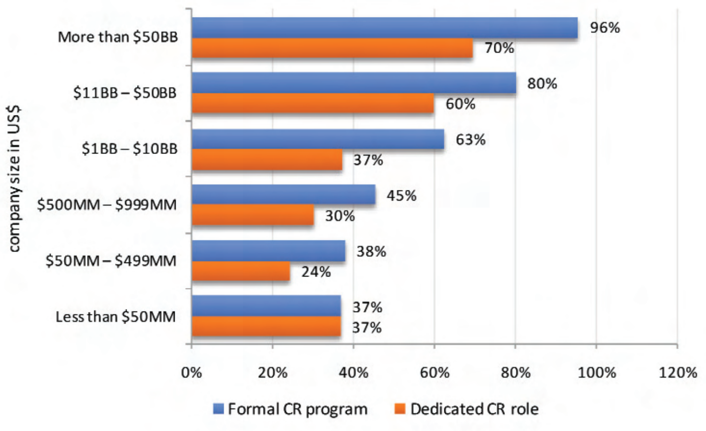
SOME COMPANIES HAVE CR PROGRAMS IN NAME ONLY. HOW ABOUT YOURS?

BY RICHARD J. CRESPIN, CROA EXECUTIVE DIRECTOR

Corporate responsibility is booming: 62 percent of firms responding to the "CR Best Practices" survey report having a formal CR program. Among the largest firms, 96 percent have formal programs. Yet only 42 percent of firms overall (70 percent of the largest firms) report having a designated corporate responsibility officer (CRO) or similar role. That means that 20 percent of firms overall and 26 percent of the very largest firms have a program without a head. Moreover, 48 percent of CR programs do not have a dedicated budget.

So, can you claim to have a formal program without a lead executive or a dedicated budget? More fundamentally, how should CR programs be led, structured, and budgeted to succeed? And thinking longer term, as a formal function, is CR permanent or temporary? Have companies set up CR functions to bring focus that they later intend to transition to an integrated part of their culture? Or does this represent a permanent change in governance? Put differently, are CROs the 21st century equivalent of the CFO or TQM?

Within the Corporate Responsibility Officers Association (CROA), we've debated the role of the CR professional. We've looked at defining a body of knowledge, detailing roles and responsibilities. We've looked at an ethics code. Yet, I don't think we've really dealt with the underlying question of where CR as a function and a profession is headed. For some, the answer is obvious, and folks have an immediate, almost visceral reaction.



"Of course CR is temporary… in fact it's already embedded in our culture, and we'll soon dismantle the vestiges of the 'program' we set up to manage it," say folks on one side. On the other side, people say, "No, this is a permanent change for us. CR issues will always be around and will always need professional management to tackle them"

How companies view CR as a function underlies in part their decision on how to structure it. From the survey data, we can see that most firms do have formal CR programs but, some lack structure, budget, and management. So, I come back to the original question: what do you need in place to call your CR program a "real" Corporate Responsibility Program?

If you look below the surface, the structure of a program—including its budget and management—needs to align with its mission. When we look at the 20 percent (or 26 percent of large firms) without a designated CRO, we have to wonder about who's responsible for delivering on the mission. Some of these firms probably feel they've so embedded CR into their culture that they don't need a lead executive. Some of them are probably fooling themselves: They've declared a program, but it is in fact rudderless. And if companies view CR as more of a change in culture than a change in governance, they might not put in place the same level of structure.

So, what does it take to have a real, recognized corporate responsibility program? Perhaps a company can have a program without an officer. But without the ability to report measurable outcomes—which 26 percent of firms said they cannot do—no meaningful program can be said to exist.

Regardless of where you come down on this debate for your own company, here's the opportunity: Delve into the data, and decide for yourself. We've barely scratched the surface on the findings and benchmarking opportunities provided by this huge data set. In releasing this report I'm issuing two calls to action:

First, insist on seeing the data. As you build and expand your CR programs, build them around gathering, measuring, and reporting data on clearly articulated goals. Hyperbole and hype will kill CR faster than anything else. Real data will fuel real progress.

Second, share and compare. If you haven't already responded to the survey, it's not too late (www.surveymethods.com/EndUser.aspx?C3E78B99C0889199). Once you have, compare yourself against your peers and the top CR performers. If you're a CROA member you can get the composite results and get special discounted access to the in-depth research data so you can make informed decisions about how to build your program. Sharing and comparing data will raise everyone's standards, behaviors, and results. CR